Industrial Energy Consumers of America
The Voice of the Industrial Energy Consumers

1776 K Street, NW, Suite 720 • Washington, D.C. 20006
Telephone (202) 223-1420 • www.ieca-us.org

January 31, 2019

The Honorable Frank Pallone
Chairman
Committee on Energy and Commerce
U.S. House of Representatives
2107 Rayburn House Office Building
Washington, DC 20515

The Honorable Greg Walden
Ranking Member
Committee on Energy and Commerce
U.S. House of Representatives
2185 Rayburn House Office Building
Washington, DC 20515

Re: Request for oversight hearings on the DOE's plans to approve 52.8 Bcf/d of LNG to NFTA countries, a volume equal to 71 percent of 2017 U.S. demand

Dear Chairman Pallone and Ranking Member Walden:

We write to urge you to conduct oversight hearings regarding the U.S. Department of Energy's (DOE) plan to approve LNG export volumes equal to 71 percent of U.S. 2017 demand to non-free trade agreement (NFTA) countries. Volumes of this magnitude cannot possibly be in the public interest under the Natural Gas Act (NGA) and would do serious harm to natural gas and natural gas-fired electric generation consumers, and the U.S. economy long-term. We urge you to fully implement the intent of the NGA to protect U.S. consumers long-term. Action is necessary because the global LNG market is not a free market[1] and buyers of LNG who compete for natural gas with U.S. consumers are state-owned enterprises and foreign government-controlled utilities. The public is unaware of this long-term threat and there are no safeguards in place for U.S. consumers.

The DOE has made this determination using a proprietary economic model, which violates the Congressional intent of the Data Quality Act (DQA), and makes it impossible for third party economists to challenge the findings of the report. It is urgent that you act because there are sixteen LNG export applications pending at the Federal Energy Regulatory Commission (FERC) which will then be sent to the DOE for final approval in the coming weeks.

The IECA report entitled, "Excessive Liquified Natural Gas (LNG) Exports to NFTA Countries are Not in the Public Interest and Increase Natural Gas and Electricity Prices to Consumers,"[2]

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[1] "WoodMac: Uncontracted demand by world's seven largest LNG buyers to quadruple," LNG World News, December 13, 2018, https://www.lngworldnews.com/woodmac-uncontracted-demand-by-worlds-seven-largest-lng-buyers-to-quadruple/?utm_source=emark&utm_medium=email&utm_campaign=daily-update-lng-world-news-2018-12-14&uid=55872

[2] "Excessive Liquified Natural Gas (LNG) Exports To NFTA Countries Are Not In The Public Interest And Increase Natural Gas And Electricity Prices To Consumers," Industrial Energy Consumers of America (IECA), January 30, 2019, https://www.ieca-us.com/wp-content/uploads/01.30.19_IECA-LNG-Exports-Report.pdf

highlights shortcomings of the DOE's LNG export studies and the failures to consider significant risks leveled at U.S. consumers. Excessive LNG exports lead to higher prices, increased volatility, and reliability risks.

On December 28, 2018, the DOE released a "Study on Macroeconomic Outcomes of LNG Exports: Response to Comments Received on Study."[3] In the report, it states, "Accordingly, DOE/FE finds that the 2018 LNG Export Study is fundamentally sound and supports the proposition that exports of LNG from the lower-48 states, in volumes up to and including 52.8 Bcf/day of natural gas, will not be inconsistent with the public interest." The study is a departure from previous DOE studies which examined the economic impact of specific LNG export volumes, such as 10 billion cubic feet per day (Bcf/d). This study examines the economic impacts of *market-determined* LNG demand. This is the same approach taken by Australia, which resulted in extraordinary high natural gas prices for their consumers.

The DOE has already given final approval for LNG exports to NFTA countries equal to 21.4 Bcf/d, a volume equal to about 30 percent of 2017 U.S. demand. EIA states that by the end of 2019, about 9.5 Bcf/d of LNG export capacity will be operating. Since the U.S. started exporting LNG, 51.6 percent of all LNG was shipped to NFTA countries and China is at the top of the list.[4] NFTA countries are countries that discriminate against U.S. imports of manufactured goods and farm products. The DOE's LNG export studies specifically state that LNG exports lower the price of natural gas to LNG buying countries, which makes it harder for U.S. manufacturers to compete. The DOE study also states that LNG exports will lower the cost of imported goods to the U.S. This outcome is contradictory to the desire of Congress and the Trump Administration to produce more goods in the U.S. and import less.

Under the NGA, the DOE must approve an application to export LNG to a NFTA country, unless it finds that doing so would be inconsistent with the public interest. However, the DOE has never defined the public interest. Instead, it appears that the DOE is using net economic benefits as an unofficial definition. The DOE LNG export studies show that LNG exports create winners and losers. The beneficiaries are natural gas producers, exporters, and state-owned enterprises (SOEs) and utilities that buy LNG, everyone else in the U.S. loses. The DOE has never determined that a single application to export LNG is inconsistent with the public interest.

In the December 28, 2018 report, the DOE admits that the study used a proprietary economic model to justify the approval of these large volumes, an action that is directly inconsistent with the DQA. Then the DOE goes on to state in the report, that the "DOE declined to adopt a general prohibition against use of third-party proprietary models."

Congressional intervention is justified to protect the interest of the public because the LNG market is not a free market. Buyers are government backed SOEs and utilities that have automatic cost pass through and have the responsibility to keep the lights on and factories

[3] "Study on Macroeconomic Outcomes of LNG Exports: Response to Comments Received on Study," U.S. Department of Energy, December 28, 2018, https://www.federalregister.gov/documents/2018/12/28/2018-28238/study-on-macroeconomic-outcomes-of-lng-exports-response-to-comments-received-on-study

[4] Exports of Domestically-Produced LNG Delivered (Cumulative starting from February 2016 through November 2018), U.S. Department of Energy, November 2018, https://www.energy.gov/fe/downloads/lng-monthly-report-2018

running in their respective countries. This becomes a problem for U.S. consumers when eventually the global LNG demand exceeds supply. These government backed entities have the ability to pay any price no matter how high in order to secure the LNG they need, driving up the marginal cost of natural gas and power for U.S. consumers and pulling down vital storage inventory during peak winter demand. All of the major LNG consuming countries have winter when the U.S. does. They have high demand when we have high demand.

It is critically important that LNG export volumes are not so large that the U.S. price is connected to the global LNG market. This threat is not merely hypothetical, it happened in Australia. The Australian example shows that using *market determined* levels of LNG exports is not in the public interest. They are at least ten years ahead of the U.S. in exporting LNG. Australia has vast natural gas resources. Historically, the consumer prices have been around $3.00 MMBtu. Now, because of LNG exports, the Australian consumer pays the *Asian LNG net back price*. This means that the Australian consumer pays the high Asian LNG price, less transportation and liquefaction costs, which has resulted in Australian domestic consumer prices at $8, $9, and $10 MMBtu.

The Australian Competition and Consumer Commission started publishing LNG netback prices in order to boost price transparency.[5] The Australian consumer net back prices have increased from 7.27 Gj in 2017 to 10.69 Gj YTD 2018, a 47 percent increase. In approving LNG export terminals, the Australian government let markets determine the volume of exports, which has now directly caused disastrous impacts to consumers and the manufacturing sector as jobs continue to decrease.

We also urge your support to stop the use of taxpayer dollars to promote the export/import of U.S. LNG by the United States Trade and Development Agency (USTDA). This is corporate welfare and certainly not in the public interest. A vital distinction is that the recipients are not companies, they are country-owned or controlled entities. A story from the Associated Press on December 12, 2018 stated that the USTDA has funded 13 projects in 20-plus countries.[6] The story goes on to state that the USTDA has received more than 40 gas-related proposals this year, including a floating gas processing unit on China's east coast facility. Other spending included helped to supply LNG to Morocco, Spain, Portugal, a gas-fired power plant in Egypt, and gas terminals in Honduras and Romania. If it is in the interest of those countries to import LNG then they should be willing and able to fund their own projects.

On December 19, 2018, the DOE issued a new policy statement entitled, "Eliminating the End-Use Reporting Provision in Authorizations for the Export of Liquefied Natural Gas."[7] The policy statement is acceptable policy, with one important exception. It appears that this policy would

[5] "Australian watchdog starts LNG netback price publication," October 2018, LNG World News https://www.lngworldnews.com/australian-watchdog-starts-lng-netback-price-publication/?utm_source=emark&utm_medium=email&utm_campaign=daily-update-lng-world-news-2018-10-05&uid=55872

[6] When I Comes to Natural Gas, US 'Open for Business', December 12, 2018, Associated Press, https://www.usnews.com/news/best-states/texas/articles/2018-12-12/when-it-comes-to-natural-gas-us-open-for-business

[7] "Eliminating the End Use Reporting Provision in Authorizations for the Export of Liquefied Natural Gas," U.S. Department of Energy, December 19, 2018, https://www.federalregister.gov/documents/2018/12/19/2018-27449/eliminating-the-end-use-reporting-provision-in-authorizations-for-the-export-of-liquefied-natural

allow companies to ship natural gas by pipeline to Mexico or Canada with the intent of exporting LNG to NFTA countries, thus evading the NGA's NFTA public interest test.[8]

The stakes here could not be higher. If the DOE gets this wrong and exports too much LNG, it could threaten the manufacturing renaissance that is currently underway and put trillions of dollars of manufacturing assets at risk long-term. Every homeowner, farmer, and business in the U.S. will be impacted by excessive LNG exports.

IECA is not against LNG exports. We are against excessive LNG exports to NFTA countries. If the Committee finds that it does not have the policy tools to fully implement the intent of the NGA to protect consumers, then we strongly encourage you to act to create the policy tools necessary to do so. We look forward to working with you on this very important and timely issue.

Sincerely,

Paul Cicio
President

cc: House Committee on Energy and Commerce
House Committee on Ways and Means
The Honorable Rick Perry, U.S. Department of Energy
The Honorable Robert Lighthizer, U.S. Trade Representative
The Honorable Wilbur Ross, U.S. Department of Commerce

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with $1.0 trillion in annual sales, over 3,700 facilities nationwide, and with more than 1.7 million employees worldwide. It is an organization created to promote the interests of manufacturing companies through advocacy and collaboration for which the availability, use and cost of energy, power or feedstock play a significant role in their ability to compete in domestic and world markets. IECA membership represents a diverse set of industries including: chemicals, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, building products, automotive, brewing, independent oil refining, and cement.

[8] "Latest News: Sempra Energy Units Sign Three Heads Of Agreements With Total S.A., Mitsui & Co., Tokyo Gas Co. For Energía Costa Azul Liquefaction Project," ECA LNG, November 9, 2018, http://ecalng.com/sempra-energy-units-sign-three-heads-of-agreements-with-total-s-a-mitsui-co-tokyo-gas-co-for-energia-costa-azul-liquefaction-project/